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663-6181

May 10, 1994

BY MESSENGER

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation; MM Docket No. 92-266, Implementation of Sections of the Cable Television Consumer Protection and Competition Act of 1992 -- Rate Regulation

Dear Mr. Caton:

On behalf of ValueVision International, Inc. ("ValueVision"), this is to provide additional information concerning the cable penetration and terms of carriage of ValueVision's principal competitors, QVC Network Inc. ("QVC") and Home Shopping Network, Inc. ("HSN").

According to QVC's latest SEC Form 10-K (the relevant portions of which are enclosed), filed on April 20, 1994, QVC's programming reaches approximately 80% of all cable television subscribers in the United States. As of January 1, 1994, its programming was being transmitted to approximately 44 million cable homes on a full-time basis, and another 3 million cable homes on a part-time basis.

According to the same report, QVC's approximate net sales per full-time equivalent home were $27 in fiscal year 1993. QVC reported that it paid program carriers 5% of the net sales of merchandise sold to customers in the program carriers' service areas. It therefore paid average commissions of approximately $1.35/subscriber/year, or approximately $.11/subscriber/month, for cable carriage.

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HSN reported in its latest SEC Form 10-K (the relevant portions of which are enclosed), filed on March 18, 1994, that its programming was carried on over 2,296 cable systems, reaching approximately 34 million cable homes.

According to the same report, HSN's standard affiliation agreement provides cable operators a commission of 5% of the net sales of merchandise sold to customers located within the cable operator's franchise area for carrying HSN programming. According to HSN's 1993 annual report (the relevant portion of which is enclosed), HSN's commissions to cable operators for 1993 amounted to $33.9 million. HSN therefore paid approximately $1.00/subscriber/year, or approximately $.08/subscriber/month, for cable carriage.

An original and one copy of this letter is being submitted for inclusion in the public record.

Yours sincerely,

Christopher M. Heimann

Enclosures

cc: Patrick Donovan

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PCN: 1103065

Company Name:
QVC NETWORK INC

Form Type: 10-K

Filing Date: Apr 20 1994 10:02AM

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED JANUARY 31, 1994

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM ____________________ TO ____________________

COMMISSION FILE NO. 0-14999

QVC NETWORK, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE (State or other jurisdiction of incorporation or organization)	23-2414041 (I.R.S. Employer Identification No.)
GOSHEN CORPORATE PARK WEST CHESTER, PENNSYLVANIA (Address of principal executive offices)	19380 (Zip Code)

Registrant's telephone number, including area code: (610) 430-1000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the described and demonstrated live by program hosts, and orders are placed directly with QVC by viewers who call a toll-free '800' telephone number. QVC television programming is produced at the Company's facilities and is broadcast nationally via satellite to affiliated local cable system operators ('Program Carriers') who have entered into carriage agreements (the 'Affiliation Agreements') with the Company and who retransmit the QVC programming to their subscribers.

The QVC Service currently reaches approximately 80% of all cable television subscribers in the United States. ~~QVC's main channel (the 'Primary Channel'), as~~ of January 31, 1994, is transmitted live on a 7-day-a-week, 24-hour-a-day basis, to approximately 44 million cable television homes and on a part-time basis to approximately 3 million additional cable television homes. In addition, the QVC Service can be received at any time by approximately 3 million home satellite dish users.

Program Carriers receive monthly cash payments from the Company equal to 5% of the net sales generated from the Program Carriers' respective service areas and, in the past, have been issued substantial equity securities by the Company in return for commitments to carry the QVC Service. QVC has also developed certain incentive programs, including various forms of marketing, launch and equipment purchase support, that are directed toward Program Carriers.

The number of homes receiving the QVC Service has grown from an average of approximately 11 million in fiscal 1987 (the first full year of operations) to an average of approximately 49.3 million in fiscal 1993. In addition, the approximate net sales per Full-Time Equivalent home has increased from $13 in fiscal 1987 to $27 in fiscal 1993. Full-Time Equivalent homes equal the total number of cable homes receiving the QVC Service 24-hours-a-day plus one-third of the part-time cable homes plus one-half of the satellite dish homes. A major portion of the growth in the Company's cable television homes and revenues in fiscal 1989, 1990 and 1991 was due to the Company's acquisition of CVN Companies, Inc. ('CVN') in October 1989. While the Company continues to seek further opportunities to increase the number of subscribers receiving the QVC Service, it is unlikely that the number of subscribers receiving the QVC Service will continue to grow at rates comparable to prior periods. Continued growth in the Company's revenue will increasingly depend on greater penetration (i.e., the addition of new customers from homes already reached by the QVC Service), as well as continued growth in repeat sales to existing customers. To a lesser extent, some revenue growth will be derived from an increase in the number of homes receiving the QVC Service. The historical growth in the Company's revenue and net sales per Full-Time Equivalent subscriber has been achieved over a relatively short operating history. No assurance can be given that continued growth of comparable levels can be achieved or that the Company's historical levels of repeat sales can be maintained.

The QVC program schedule consists of one-hour and multi-hour program segments. Each program segment has a theme devoted to a particular category of product or lifestyle. From time to time, QVC broadcasts special program segments devoted to merchandise associated with a particular celebrity, geographical region or seasonal interest. During both regular and special program segments, program hosts talk to viewers live on the air, and viewers are also given opportunities to win prizes in the form of credits which may be applied toward future purchases. Each QVC product presentation averages approximately five minutes, resulting in approximately 80,000 merchandise presentations annually on the Primary Channel.

The QVC Service provides viewers with the convenience of shopping at home combined with a broad range of products priced to represent good value. QVC selects all products presented on its programs, stocks the merchandise, customer may have most other products shipped by Federal Express or United Parcel Service's air service.

The Company has several interconnected computer systems. The input from approximately 880 order entry terminals and approximately 360 customer service terminals in the Pennsylvania, Virginia and Texas facilities is processed by a fault-tolerant Stratus computer system. Purchasing, receiving, inventory management, order fulfillment and financial reporting functions are performed by multi-processor IBM and Teradata computer systems.

QVC SERVICE TRANSMISSION

The QVC Service signal is transmitted via two exclusive, protected, non-preemptible transponders on communications satellites. Each communications satellite has a number of separate transponders. 'Protected' status means that, in the event of transponder failure, QVC's signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same lessor if one is available at the time of the failure. 'Non-preemptible' status means that the transponder cannot be preempted in favor of a user of a 'protected' transponder that has failed. The Company has never had an interruption in programming due to transponder failure and believes that because it has the exclusive use of two protected, non-preemptible transponders, such interruption is unlikely to occur. There can be no assurance, however, that there will not be an interruption or termination of satellite transmission due to transponder failure. Such interruption or termination could have a material adverse effect on QVC.

PROGRAM CARRIERS

QVC's business is highly dependent on its affiliation with Program Carriers for the transmission of the QVC Service to cable television homes.

QVC has entered into Affiliation Agreements with Program Carriers to carry the QVC Service on their cable systems generally as part of the basic cable television service. There are no additional charges to the subscribers for distribution of the QVC Service except in an insignificant number of cases. In return for carrying the QVC Service on their cable systems, each Program Carrier receives five percent (5%) of the net sales of merchandise sold to customers located in the Program Carrier's service area. QVC paid commissions to Program Carriers of $9.0 million in the fiscal year ended January 31, 1989, $19.9 million in the fiscal year ended January 31, 1990 (including three months of payments on sales by CVN), $36.0 million in the fiscal year ended January 31, 1991, $46.8 million in the fiscal year ended January 31, 1992, $57.7 million in the fiscal year ended January 31, 1993, and $65.4 million in the fiscal year ended January 31, 1994. If not renewed, Affiliation Agreements (not including JCPTV's affiliation agreements) covering approximately 44% of the homes to which the QVC Service is transmitted will expire by the year 1995, approximately 13% will expire between 1996 and 2000, and the balance will expire between 2001 and 2005. The terms of most Affiliation Agreements are automatically renewable for one-year terms unless terminated by either party on at least 90 days' notice prior to the end of the term. Affiliation Agreements covering most of the Company's cable television homes can be terminated in the sixth year of their respective terms by the Program Carrier unless the Program Carrier earns a specified minimum level of sales commissions. The Company's sales are currently at levels that would meet such minimum requirements. The Affiliation Agreements provide for the Program Carrier to broadcast commercials regarding the QVC Service on other channels and to distribute the Company's advertising material to subscribers.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934 [Fee Required]
For the Year Ended December 31, 1993

OR

☐ Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934 [No Fee Required]
For the Transition Period from to
Commission File No. 1-9118

HOME SHOPPING NETWORK, INC.
(Exact name of registrant as specified in its charter)

Delaware	**59-2649518**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

2501 118th Avenue North, St. Petersburg, Florida
(Address of registrant's principal executive offices)

33716
(Zip Code)

(813) 572-8585
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange Registered
Common Stock $.01 Par Value	NYSE

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

As of March 18, 1994, there were outstanding 73,920,285 shares of Common Stock (net of shares held in treasury) and 20,000,000 shares of Class B common stock. The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 18, 1994 was $732,596,579.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes ☐ No ☐

DOCUMENTS INCORPORATED BY REFERENCE:

Documents	Form 10-K Reference
1993 Annual Report	Part II Items 5-8
Proxy Statement dated March 29, 1994	Part III Items 10-13

PART I

Item 1 — *Business*

General

Home Shopping Network, Inc. ("HSN" or the "Company") is a holding company, the subsidiaries of which conduct the day-to-day operations of the Company's various business activities. The Company's primary business, and principal source of revenue, is electronic retail sales by Home Shopping Club, Inc. ("HSC"), a wholly-owned subsidiary of the Company and a leader in the electronic retailing industry.

On July 13, 1993, the Company elected to change its annual reporting period from a year ending August 31 to a year ending December 31, effective January 1, 1993. The change in year end was made following the acquisition of voting control of the Company (the "Acquisition") by a wholly-owned subsidiary of Liberty Media Corporation, a Delaware corporation ("Liberty"), which reports its financial position and results of operations using a December 31 year end.

HOME SHOPPING CLUB, INC.

HSC sells a variety of consumer goods and services by means of HSC's live, customer-interactive retail sales programs which are transmitted twenty-four hours a day, seven days per week, via satellite to cable television systems, affiliated broadcast television stations and satellite dish receivers. HSC produces three separate retail sales programming networks, HSN 1, HSN 2, and HSN Spree. HSN 1 is carried by cable television systems throughout the country and is the original HSC programming network. HSN 2 is carried by broadcast television stations which are affiliated with HSC. HSN 2 is also carried by cable television systems which primarily retransmit the broadcast television signal of one of the independent broadcast television stations carrying HSN 2. HSN Spree is carried primarily on a part-time basis by both cable television systems and broadcast television stations. This provides system operators and broadcasters with income producing programming during portions of the day in which programming may not otherwise be scheduled.

As of December 31, 1993, there were approximately 93.7 million homes in the United States with a television set, 60.0 million basic cable television subscribers and 3.1 million homes with satellite dish receivers. As of December 31, 1993, approximately 21.8 million homes throughout the United States were able to receive HSN 1 via over 1,526 cable systems. HSN 2 was broadcast at the same date via 35 full power and 9 low power broadcast television stations in areas with a total viewership of approximately 25.9 million households. In addition, approximately 19.7 million households were able to receive HSN 2 via over 770 cable systems. See "Broadcast Television Affiliations — Cable Re-regulation Law." As of December 31, 1993, HSN Spree was carried on a full- or part-time basis by 112 broadcast television stations, including certain stations that are in areas also served by cable television systems or broadcast television stations which carry HSN 1 and/or HSN 2. Approximately 3.1 million additional households also were able to receive HSN 1, HSN 2 or HSN Spree by means of satellite dish receivers.

Approximately 7.8 million of the cable television households receiving HSC programming are considered multiple service households which receive HSN 1 and HSN 2. In addition, an indeterminate number of television households which are capable of receiving HSN 1 or HSN 2 by means of broadcast television stations or cable may also receive HSN Spree and, in certain markets, HSN Spree is carried by cable television systems located within the coverage area of broadcast television stations which broadcast HSN Spree. Each of HSC's three programming services may be received by households with satellite dish receivers which households may also be located within areas served by cable television systems or broadcast television stations which carry HSC programming.

HSC's Retail Sales Programming

HSC's electronic retail marketing and programming concept is the "Home Shopping Club" (the "Club"). The distinctive format of the Club is intended to promote sales through a combination of product information, price information, entertainment and the creation of confidence in HSC and its products, thus from ceasing to provide communication services to customers on short notice, and the Company would need to rely principally upon protections in its lease agreements described above. See "Transmission and Programming." HSN has not received notification that GE has any intention to cease providing transmission services. GE is required by the FCC to provide services on terms and conditions that are just, reasonable and non-discriminatory, and are subject to complaints filed with the FCC pursuant to the Communications Act.

Cablecasting Home Shopping Club Programming

HSC has entered into affiliation agreements with a number of cable system operators to carry HSN 1, HSN 2 or both HSN 1 and HSN 2. HSC's standard affiliation agreement provides that the cable operator will receive a commission of 5% of the net sales of merchandise sold to Club members located within the cable operator's franchise area in return for distributing to its customers HSC's sales programs as part of the cable operator's cable service. Cable operators which have executed affiliation agreements to carry HSN 2 are compensated for all sales on HSN 2 of merchandise within their franchise areas, regardless of whether a customer's order results from watching the program via cable, satellite dish, or on a broadcast television station within the cable operator's franchise area.

Although there is some variation among affiliation agreements with cable operators, the current standard affiliation agreement provides for an initial term of five years which is automatically renewable for subsequent one year terms. The agreement may be terminated, however, by either party ninety days prior to the end of the term. The agreements obligate a cable operator to assist the promotional efforts of HSC by carrying commercials regarding the Home Shopping Club and distributing HSC's marketing materials to their subscribers. HSC also purchases advertising availabilities from many cable operators on programming networks other than the Club as an incentive to the cable operators to carry HSC programming and as a marketing device to increase awareness of HSC programming among viewers in a given cable system. To further promote cable carriage of HSC programming, HSC has, in certain markets, guaranteed a minimum level of commissions to cable operators which agree to carry the HSC programming or offered additional compensation based upon the sales performance of HSC programming in the cable operator's franchise area.

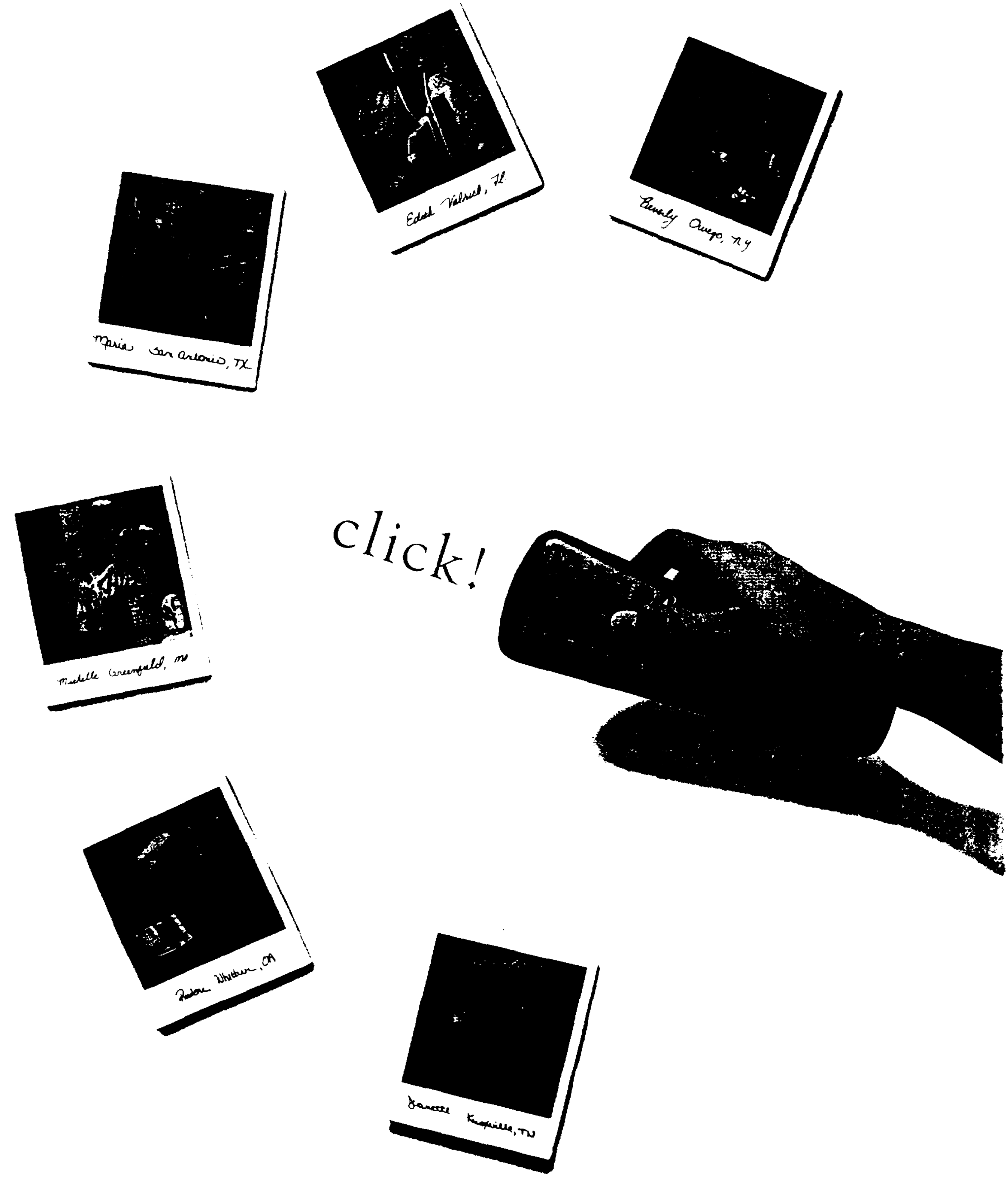
HSC has also increased cable carriage of HSN 2 and HSN Spree as a result of the cable re-regulation law. See "BROADCAST TELEVISION AFFILIATIONS — Cable Re-regulation Law."

The Company has entered into agreements with broadcast television stations to carry HSN Spree on both a part-time and full-time basis. Cable operators within the coverage areas of such broadcast television stations may carry a station's broadcast signal of HSN Spree and, if under contract, receive a commission on all sales made during the hours between 12 midnight and 9:00 a.m., Eastern Time, via HSN Spree within the cable operator's wired franchise area. HSN Spree is also carried by "superstation" WWOR, from 3 a.m. to 6 a.m., Eastern Time, which is transmitted to approximately 17.0 million cable subscribers.

1987 Cable Operators Stock Option Plan

During fiscal 1987, the Company offered certain cable operators the opportunity to participate in the 1987 Cable Operators Stock Option Plan (the "1987 Plan"). The special affiliation agreement executed by participants in the 1987 Plan provided that a cable operator would carry HSN 1, HSN 2 or both HSN 1 and HSN 2 for a period of five years beginning no later than January 31, 1988. In exchange for the commitment to carry HSC programming for five years, cable operators received (1) options to purchase the Company's common stock, exercisable over a five year period which expired July 1, 1992, and (2) the standard commission of 5% on sales of the Company's merchandise via television in the cable operator's territory. The exercise price for the options was $13.00 per share, and none were exercised prior to expiration. For each subscriber to which a cable operator agreed to transmit HSN 1 or HSN 2, the cable operator was granted an option to purchase $10.00 worth of the Company's common stock. The Company granted an option to purchase $20.00 worth of its common stock for each subscriber to which a cable operator agreed to transmit both HSN 1 and HSN 2. Under the 1987 Plan, cable operators were granted certain piggyback and mandatory registration rights with respect to the shares into which the options are exercisable.

Home Shopping Network, Inc. 1993 Annual Report



Tuning Into Our Customers.

In connection with the change in management's merchandising philosophy, the Company made an additional provision of $20.1 million to HSC's inventory reserve in February 1993. During April 1993, the Company held a week long "Big Top" sales event, primarily featuring products sold on a liquidation basis, which provided additional sales volume. Due to the promotional nature of this event, the cost of sales percentage for products featured during this event was higher than typically experienced. The liquidation of this merchandise continued during the second and third quarters resulting in higher than usual cost of sales percentages during these periods.

The above mentioned liquidation and an increase in the inventory reserve during 1993 adversely affected cost of sales. As a result of changes instituted by new management and ownership, with the aid of outside retail consultants, along with the growth in cable households as previously discussed, the Company realized improvements in sales and gross profits in the latter part of 1993 and the beginning of 1994.

Operating Expenses

For the year ended December 31, 1993, operating expenses increased $25.2 million, or 7.8%, to $349.5 million from $324.3 million for the fiscal year ended August 31, 1992. As a percentage of net sales, these expenses increased to 33.4% from 29.5% compared to the fiscal year ended August 31, 1992.

The following table highlights the operating expense section from the Company's Consolidated Statements of Operations, including the dollar and percentage changes for the year ended December 31, 1993, compared to the fiscal year ended August 31, 1992:

	Operating Expenses Years Ended			
	December 31, 1993	August 31, 1992	$ Change	% Change
	(In millions, except %)			
Selling and marketing	$138.1	$135.8	$ 2.3	1.7%
Engineering and programming	93.7	54.5	39.2	71.9
General and administrative	93.5	87.1	6.4	7.4
Depreciation and amortization	24.2	46.9	(22.7)	(48.4)
	$349.5	$324.3	$ 25.2	

"Must carry" legislation, as discussed in "Net Sales," is expected to result in increases in certain operating expenses related to cable and broadcast carriage in dollars, however, as a percentage of sales, the effect is not currently determinable.

Selling and Marketing

For the year ended December 31, 1993, selling and marketing expenses increased $2.3 million, or 1.7%, to $138.1 million from $135.8 million for the fiscal year ended August 31, 1992. As a percentage of net sales, these expenses increased to 13.2% from 12.4% compared to the fiscal year ended August 31, 1992.

The major components of selling and marketing expenses are detailed below, including the dollar and percentage changes for the year ended December 31, 1993 compared to the fiscal year ended August 31, 1992:

	Certain Selling and Marketing Expenses Years Ended			
	December 31, 1993	August 31, 1992	$ Change	% Change
	(In millions, except %)			
Telephone, operator and customer service	$48.5	$47.0	$1.5	3.2%
Commissions to cable system operators	33.9	34.4	(.5)	(1.4)
Marketing payments for cable advertising	30.7	26.8	3.9	14.5